

## Economic Insight

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## Comments on 2018 China Government Work Report

- China sets 2018 GDP growth target at ~6.5%, same as that in 2017. However, the statement of achieving a better growth result in practice has been omitted in the latest report, indicating the government is prioritizing quality over quantity growth, one that emphasizes on financial risk control, deleveraging, environmental protection, and supply-side structural reforms
- With economic deleveraging, tightening of environmental regulations, and increasing trade friction with the U.S., we expect China's economic growth to slow slightly to 6.6% for 2018E from 6.9% in 2017
- CPI target is set at 3.0%, the same as that in 2016. We expect CPI inflation to rebound to 2.0% in 2018E from 1.6% in 2017 on higher food prices and low base effect
- The report pledges to maintain a stable and neutral monetary policy in 2018, concurring with our view that PBOC would adopt a neutral monetary policy with a tightening bias to lower leverage ratio and prevent financial risks
- The fiscal deficit target is lowered to 2.6% of GDP for 2018 from 3.0% in 2017, suggesting the government will continue to control the macro leverage and maintain financial stability
- New job target is left unchanged at 11mn for 2018, while the registered unemployment rate and surveyed unemployment rate targets are set at below 4.5% and 5.5%. While currently the employment condition in China is not without its concerns, we believe the three targets are achievable with the demand for urban labor still exceeding supply

### China achieved the economic growth target in 2017

China's Premier Li Keqiang delivered his annual government work report to the National People's Congress on March 5, 2018. The report reviewed the economic performance in the last five years including 2017 and set targets on a number of economic indicators for 2018.

As shown in Exhibit 1, China's economy grew 6.9% in 2017, exceeding the economic growth target of about 6.5%. New urban job creation, another important economic indicator, exceeded target to reach 13.5mn in 2017.

**Exhibit 1: China's economic indicators in 2017 – targets VS actual performance**

Economic indicators	Target	Actual
Real GDP growth, %	about 6.5	6.9
New urban jobs created, mn	above 11.0	13.5
Registered urban unemployment rate, %	below 4.5	3.9
Fiscal deficit as the proportion of GDP, %	3.0	3.0(e)
CPI, %	about 3.0	1.6
M2 growth, %	about 12.0	8.2

Source(s): 2017 Government Work Report, ABCI Securities  
(e) Refers to ABCI Securities estimate

ABCI Research

March 5, 2018



## 2018 GDP growth target stay unchanged at ~6.5%

2018 GDP growth target is set at ~6.5% (Exhibit 2), the same as that in 2017. The statement of achieving a better growth result in practice, which was included in the 2017 report, was omitted this year. In our view, China is shifting its priority from quantity to quality growth that emphasizes on financial risk control, deleveraging, environmental protection, and supply-side structural reforms. With the acceleration in economic deleveraging, tightening of environmental regulations, and rising trade friction with the U.S., we expect China's economic growth to slow slightly to 6.6% for 2018 from 6.9% in 2017.

**Exhibit 2: China's economic targets for 2018**

Economic indicators	Target	ABCI Forecast
Real GDP growth, %	about 6.5	6.6
New urban jobs created, mn	above 11.0	13.0
Registered urban unemployment rate, %	below 4.5	4.0
Surveyed urban unemployment rate, %	below 5.5	5.0
Fiscal deficit as a proportion of GDP, %	2.6	3.0
CPI, %	about 3.0	2.0

Source(s): 2018 Government Work Report, ABCI Securities estimates

CPI target is set at 3.0%, the same as that in 2016. Nonetheless, we believe this is more of a soft guidance than a hard target. We expect CPI inflation to rebound to 2.0% in 2018E from 1.6% in 2017 on higher food prices and low base effect. We forecast PPI inflation to ease to 2.5% in 2018E from 6.3% in 2017 with the low base effect fading away and commodity prices moderating.

The report pledges to maintain a stable and neutral monetary policy in 2018, concurring with our view that PBOC would adopt a neutral monetary policy with a tightening bias to lower leverage ratio and prevent financial risks. We expect M2 to grow by ~9.0% for 2018E, while new RMB-denominated loans and new aggregate financing would be ~RMB 14.5tr and ~RMB 22.0tr.

The fiscal deficit target is lowered to 2.6% of GDP in 2018 from 3.0% in 2017, suggesting the government will continue to control the macro leverage and maintain financial stability. The tax and fee reduction is planned to be ~RMB 1,100bn for 2018, up from ~RMB 550bn for 2017. The quota for special local government bond is lifted to RMB 1,350bn for 2018 from RMB 800bn in 2017. We expect the faster growth in fiscal expenditure than in fiscal revenue to result in another small fiscal deficit in 2018E, with the headline ratio approaching to ~3.0% of GDP.

Job creation target is left unchanged at 11mn for 2018, while registered unemployment rate and surveyed unemployment rate are set at below 4.5% and 5.5%. We believe the three targets are achievable. In 2017, new job creation reached 13.5mn while registered unemployment rate and surveyed unemployment rate were low at 3.9% and 5.0% in 2017. Moreover, the urban labor demand-to-supply ratio stayed at 1.2 in 4Q17, indicating sufficient job opportunities.

In order to achieve the above mentioned economic targets, the report pledges to deepen supply-side structural reform, rural land reform,



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state-owned enterprise reform, financial system reform, fiscal regime reform, etc. China plans to cut steel production capacity by ~30mn metric tons and coal production capacity by ~150mn metric tons in 2018. Meanwhile, Premier Li vows to pay close attention to environmental protection in the report, specifying the goal to slash energy use per unit of GDP by more than 3% in 2018.



China Economic Indicators

	2017												2018	
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Real GDP (YoY %)	---	---	6.9	---	---	6.9	---	---	6.8	---	---	6.8	---	---
Export Growth (USD, YoY %)	7.9	(1.3)	16.4	8.0	8.7	11.3	7.2	5.5	8.1	6.9	12.3	10.9	10.9	---
Import Growth (USD, YoY %)	16.7	38.1	20.3	11.9	14.8	17.2	11.0	13.3	18.7	17.2	17.7	4.5	4.5	---
Trade Balance (USD bn)	51.3	(9.1)	23.9	38.0	40.8	42.8	46.7	42.0	28.5	38.2	40.2	54.7	54.7	---
Retail Sales Growth (YoY %)	9.5	9.5	10.9	10.7	11.0	10.4	10.1	10.3	10.0	10.2	9.4	---	---	---
Industrial Production (YoY %)	6.3	6.3	7.6	6.5	6.5	7.6	6.4	6.0	6.6	6.2	6.1	6.2	---	---
PMI - Manufacturing (%)	51.3	51.6	51.8	51.2	51.2	51.7	51.4	51.7	52.4	51.6	51.8	51.6	51.3	50.3
PMI - Non-manufacturing (%)	54.6	54.2	55.1	54.0	54.5	54.9	54.5	53.4	55.4	54.3	54.8	55.0	55.3	54.4
FAI (YTD) (YoY %)	8.9	8.9	9.2	8.9	8.6	8.6	8.3	7.8	7.5	7.3	7.2	7.2	---	---
CPI (YoY %)	2.5	0.8	0.9	1.2	1.5	1.5	1.4	1.8	1.6	1.9	1.7	1.8	1.5	---
PPI (YoY %)	6.9	7.8	7.6	6.4	5.5	5.5	5.5	6.3	6.9	6.9	5.8	4.9	4.3	---
M2 (YoY %)	11.3	11.1	10.6	10.5	9.6	9.4	9.2	8.9	9.2	8.8	9.1	8.2	8.6	---
New Lending (RMB bn)	2030	1170	1020	1100	1110	1540	826	1090	1270	663	1120	584	2900	---
Aggregate Financing (RMB bn)	3740	1150	2120	1390	1060	1780	1220	1480	1820	1040	1600	1140	3060	---

World Economic/Financial Indicators

Equity Indices				Global Commodities				Bond Yields & Key Rates			
	Closing price	Chg. WTD (%)	P/E	Unit	Price	Chg. WTD (%)	Volume (5-Day avg.)		Yield (%)	Chg. WTD (Bps)	
<b>U.S.</b>				<b>Energy</b>				US Fed Fund Rate			
DJIA	24,538.06	0.00	19.82	NYMEX WTI	USD/bbl.	61.82	0.93	645,390	1.50	0.00	
S&P 500	2,691.25	0.00	21.73	ICE Brent Oil	USD/bbl	64.95	0.90	185,877	4.50	0.00	
NASDAQ	7,257.87	0.00	33.67	NYMEX Natural Gas	USD/MMBtu	2.70	0.11	122,825	2.00	0.00	
MSCI US	2,564.36	0.00	22.23	China Qinhuangdao Port Thermal Coal <sup>2</sup>	USD/Metric Tonne	61.80	N/A	N/A	1.4817	0.00	
<b>Europe</b>				<b>Basic Metals</b>				US Treasury (1 Yr)			
FTSE 100	7,098.63	0.41	13.53	LME Aluminum Cash	USD/MT	2,138.75	0.00	24,004	2.5980	(3.03)	
DAX	11,908.68	(0.04)	15.90	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	2,149.00	0.00	45,018	2.8315	(3.28)	
CAC40	5,148.52	0.23	16.32	CMX Copper Active	USD/lb.	6,871.00	0.00	14,916	0.0430	(2.50)	
IBEX 35	9,557.10	0.27	14.01	LME Copper 3- mth Rolling Fwd.	USD/MT	6,898.00	0.00	42,244	3.8610	(3.60)	
FTSE MIB	21,776.74	(0.62)	12.25	<b>Precious Metals</b>				China 10-Yr Gov. Bond			
Stoxx 600	368.21	0.32	16.05	CMX Gold	USD/T. oz	1,328.10	0.36	306,378	0.00	0.00	
MSCI UK	2,047.59	0.00	13.56	CMX Silver	USD/T. oz	16.58	0.69	78,537	1.6905	5.93	
MSCI France	148.16	0.00	16.07	NYMEX Platinum	USD/T. oz	969.20	0.42	20,592	2.0252	6.89	
<b>Asia</b>				<b>Agricultural Products</b>				O/N SHIBOR			
NIKKEI 225	21,042.09	(0.66)	15.45	CBOT Corn	USD/bu	384.50	(0.19)	290,279	2.6520	(12.1)	
S&P/ASX 200	5,895.03	(0.57)	17.28	CBOT Wheat	USD/bu	497.25	(0.55)	121,975	4.0726	2.75	
HSI	29,886.39	(2.28)	13.00	NYB-ICE Sugar	USD/lb.	13.39	(0.22)	90,251	1.0274	(2.73)	
HSCEI	11,991.79	(1.74)	9.37	CBOT Soybeans	USD/bu.	1,071.50	0.05	168,271	Corporate Bonds (Moody's)		
CSI300	4,018.10	0.04	16.56					Aaa		3.82	(7.00)
SSE Composite	3,256.93	0.07	16.71					Baa		4.53	(3.00)
SZSE Composite	1,830.84	0.47	29.94								
MSCI China	92.95	0.00	18.07								
MSCI Hong Kong	16,075.79	0.00	12.31								
MSCI Japan	1,011.80	0.00	13.27								

Note:

1. Data sources: Bloomberg, National Bureau of Statistics of China, ABCIS (updated on date of report)
2. The price is Coal 5500 kcal/kg FOB Spot Price

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-mth Spot pr.
Spot Rate	1.2308	1.3785	0.7742	105.51	0.9376	6.3414	7.8316	6.4720
Chg. WTD (%)	(0.07)	(0.12)	(0.23)	0.23	(0.02)	0.06	(0.01)	(0.03)



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### Definition of equity rating

Rating	Definition
Buy	Stock return $\geq$ Market return rate
Hold	Market return - 6% $\leq$ Stock return < Market return rate
Sell	Stock return < Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate

Time horizon of share price target: 12-month

### Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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